
RUNGE LIMITED
(RUL)
Annual General Meeting 2012
Chairman's and Chief Executive Officer's Speeches

Time: 9.00 am (AEST)

Date: Friday, 23 November 2012

Venue: The Christie Conference Centre,
Kamisama Room, Level 6,
320 Adelaide Street,
Brisbane, Queensland

Chairman's Address

As you will all be aware from the recent market update our financial results in this new fiscal year have been weak and we are facing challenging market conditions. However I would encourage you all to take note of the positive changes that are being made in our business and our CEO, Richard Mathews will discuss these in more detail in his address.

In late August the Board appointed Richard as CEO. Richard has an outstanding record as a senior executive and a track record of turning companies around. You will hear of his plans for the company and how we intend to capitalise on both the value we have developed in our technology and the experience and knowledge of our professional staff. The clear direction is to improve margins in our advisory business, increase revenue in our technology business and improve efficiencies in our GeoGAS business.

We do need to balance the short term view of having the right business structure which deals with the current trading conditions, with what our customers expect us to provide to their organisations over the longer term. The Board has complete faith in Richard and his management team to deal with these challenges and to deliver results for our shareholders.

Briefly looking at the 2012 fiscal year, we were pleased to pay a 3 cent partly franked dividend to our shareholders. Revenue growth was strong but our costs increased in the same proportion leaving our underlying net profit the same as the previous year. Even though the financial results have not been great, the company has a solid financial position which is critical in this current environment.

There has been a major change to our shareholder base over the last 18 months and I would like to welcome those new shareholders to our company. I would also like to thank my fellow Board members for their contribution this past year.

Our business is a people business and while I know right at the moment it is a difficult time for our employees I would very much like to acknowledge their contribution, talent and support to the business. Without them we would not have a business.

This past year has been very much a year of change - Board members, senior management, shareholders. But the potential for the business remains the same and we have an outstanding list of customers around the world who have been with us for many years.

We are determined to ensure that once the mining sector reawakens which it will, our business is positioned to grow consistently and profitability.

We believe that the company is undervalued and we will continue to work hard to have it better understood by the investment community.

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Chief Executive Officer's Address

Thank-you Allan.

It is great to be here today and have the opportunity to talk to you as the company's new CEO. As you may know I am a substantial shareholder in the business having purchased all of my shares on market over the last 18 months so you can be assured that our interests are completely aligned.

My first introduction to Runge was when I was the CEO of Mincom, the country's largest software provider to the global mining industry. We actually tried to buy the business prior to the company's IPO in 2008.

The reasons that I liked the company at the time (and still do) are because:

- It had a long history as a trusted advisor to the mining industry and its executives. Its people could really walk the walk and talk the talk.
- It had a competitive advantage that other pure software companies did not have – it worked directly with its customers in the mining space not just as a software provider but as an advisor which enabled it to develop a deep understanding of the customer's wants and needs which you cannot get from viewing the business from the outside.
- Its advisory team works closely with its customers to address and prepare for future changes in the industry, so again it really is a forward looking business which helps in terms of software development.

For all of these reasons I choose to become a shareholder in Runge and was fortunate to be asked to join the Board in February this year and recently I accepted the opportunity to lead the company.

Since starting in the role in late August the mining industry has changed significantly which has meant we have had to make some hard decisions particularly as it has related to the cost structure of the business. As you may have seen in the trading update which was lodged late last week we have responded to the downturn in the coal market with a number of initiatives designed to improve our operating margins.

I would like to speak to you today about three separate but linked topics:

1. How did the company get to this point in time and what is our value proposition?
2. What changes have I instituted since commencing in the role of CEO in late August, and lastly,
3. What we believe the future looks like for our company.

I have a short presentation I would like to take you through which address these three topics.

Runge's history starts 35 years ago in Brisbane. Since introducing our first scheduling products to the industry in the 1970's, Runge has evolved its product suite to be the premier provider of mining scheduling and independent advisory services.

While over recent years our revenue and headcount has increased the level of software license revenue and EBITA has remained constant in absolute terms. As a result the companies EBITA's margin percentage has continued to deteriorate.

However the company's value proposition both in terms of advisory services and technology delivery has remained strong.

As you can see from the presentation we have a comprehensive advisory offering having now prepared more than 11,000 studies right across the world.

On the technology front our software is used in 842 major mines by 4,000 users globally.

While we have a compelling story from the past, right at the moment we are in a period of renewal.

This is evidenced by the consolidation in our shareholder base, the injection of new management talent, the joining of three powerful brands (which I hope you will support), modernisation and consolidation of our marketing message, a return to our core strengths and a financial de-risking of the business.

A series of operational changes have now been completed which include closing our financial services division (Corelate Capital), suspension of testing activities at our Brisbane GeoGAS laboratory, restructuring our Australian business around capability rather than geography and the detailed commercial vetting of our product roadmaps.

Over the last two months we have reduced the annualised cost structure of the business by \$8 million through a 22% reduction in Head Office staff, phasing out of corporate advisors and flattening of the Australian management structure.

While a lot of progress has been made there is still more to do. It will be imperative that we embed a first class sales culture into the business, roll out pay for performance compensation plans, work towards a multilayered consulting team structure and introduce a Centre of Excellence competency model across the advisory business.

In terms of what we believe the future looks like across our operating units.

For the GeoGAS business we intend to expand our Australian and Indonesian coal seam gas business, capitalise on the opportunities available by the introduction of the carbon tax on greenhouse gas emissions and expand and diversify our laboratory analysis and services to capitalise on the future growth of shale gas exploration in Australia.

In the advisory space we want to be the trusted advisor to the industry and be recognised as the employer of choice.

We are determined to make significant progress in our technology business over the next 12 months as we develop robust enterprise ready software applications. We will work with the other industry leading software vendors to provide seamless integration right across the mining value chain while at the same time simplifying the usability and supportability of our flagship products.

I am particularly excited about the work that we are doing with one of the leading mining ERP vendors to provide a dynamic budgeting, reforecasting and variance reporting solution for our joint multinational customers.

Turning to the outlook for the business, we believe that long term mining fundamentals remain strong but mining services businesses, particularly those focused on coal in Australia, are facing some near term challenges.

The company has seen a general contraction in the demand for mining services across our operations in the first half of FY2013. This contraction has been significantly influenced by falling commodity prices, lower financial market activity and the impact of resource nationalism in some of our key overseas markets (including Indonesia and Mongolia). These factors have contributed to mining project delays and a general downturn in demand for advisory and mining consulting services.

The Australian market, which accounts for approximately 55% of Group revenue, has been particularly impacted by slowing activity in the coal sector and the effect on local mine operators of high operating costs and the high Australian dollar.

Whereas coal related activities have seen a significant reduction in demand, other commodities (e.g. Iron Ore, Oil Sands, Potash and Gold) continue to perform well and create opportunities for consulting and software sales.

Despite these headwinds we are continuing to invest in emerging mining regions around the world, namely Russia, Mongolia and Africa. These offices continue to show positive signs as weaker competitors either withdraw, significantly reduce or put off geographic expansion plans. Once the growth rates in these economies begin to accelerate again the investment in both the employee base and customer relationships will position Runge well for the future.

The second half of FY2013 will also see significant new releases of our scheduling and financial modelling software products. These releases will form the platform for enabling our software products to move into the enterprise space and engage a new market segment.

Whilst this first half has been tough we believe that we have acted quickly and appropriately to make the necessary changes across the business which will position us well to benefit from any improvement in trading conditions through the second half of the year.

Thank you once again for the opportunity to share with you our current thinking on the business and our plans for the future. Hopefully you will continue to support the business and take this exciting journey with us.